

ORIGINAL

Decision No. 40719

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA GAS COMPANY, a)
corporation, for an order authorizing)
it to issue and sell two hundred)
fifty-six thousand eight hundred)
(256,800) shares at par aggregating)
Six Million Four Hundred Twenty)
Thousand Dollars (\$6,420,000) of)
Common Stock under the provisions of)
Section 52 of the Public Utilities)
Act.)
-----)

Application
No. 30813

T. J. Reynolds, for applicant; Roger Arnebergh,
Assistant City Attorney, K. Charles Bean, Chief
Engineer and General Manager, and T. M. Chubb,
Assistant Chief Engineer, Board of Public
Utilities and Transportation, for the City of
Los Angeles, interested party; Clarence A. Winder,
Consulting Engineer, and Roger Arnebergh, special
counsel for Beverly Hills, Burbank, El Segundo,
Gardena, Glendale, Inglewood, Manhattan Beach,
Monterey Park, Pasadena, San Fernando, San Marino,
Southgate and South Pasadena, interested parties.

HULS, Commissioner

O P I N I O N

This is an application by Southern California Gas Company for permission to issue and sell 256,800 additional shares of common stock of the par value of \$25 each, and use the proceeds to pay indebtedness due Pacific Lighting Corporation. It is proposed to offer the shares of stock at the price of \$25 per share to Pacific Lighting Corporation, owner of all of applicant's outstanding common stock.

Southern California Gas Company is a corporation organized and existing under and by virtue of the laws of the State of

California, and is engaged in the business of purchasing, distributing and selling natural gas as a public utility in the southern portion of the State of California.

As of November 30, 1949, applicant reports assets and liabilities as follows:

Assets

Gas plant		\$236,121,451.34
Investment and fund accounts		284,497.68
Current and accrued assets:		
Cash and deposits	\$6,717,659.15	
Receivables	5,465,036.28	
Materials and supplies	3,493,360.15	
Prepayments	290,652.39	
Other current and accrued assets	<u>169,184.58</u>	
Total current and accrued assets		16,135,892.55
Deferred debits		119,668.32
Capital stock discount and expense		<u>1,597,135.45</u>
	Total assets	<u>\$254,258,645.34</u>

Liabilities and Capital

Common capital stock		\$ 46,080,000.00
Preferred capital stock		22,287,350.00
Premiums and assessments on capital stock		2,400,000.00
Bonds		57,148,000.00
Current and accrued liabilities:		
Accounts payable	\$4,211,822.07	
Payable to associated companies	8,831,347.11	
Customers' deposits	329,162.40	
Taxes accrued	8,995,667.46	
Interest accrued	347,053.26	
Other current and accrued liabilities	<u>932,140.22</u>	
Total current and accrued liabilities		23,647,192.52
Unamortized premium on debt		847,877.32
Customers' advances for construction		1,310,158.93
Other deferred credits		103,366.16
Reserve for depreciation of gas plant		81,467,441.65
Other reserves		5,033,659.53
Contributions in aid of construction		2,997,289.78
Earned surplus		<u>10,936,309.45</u>
	Total liabilities and capital	<u>\$254,258,645.34</u>

Under its liabilities applicant shows \$8,831,347.11 payable to associated companies. It is of record that substantially all of that amount is due Pacific Lighting Corporation and that by January 1, 1950, applicant will owe Pacific Lighting Corporation about \$12,000,000.

In Exhibit 2 applicant reports its estimated gross expenditures for additions and betterments during 1950 at \$26,875,000, segregated as follows:

P.U.C. Account Number	Description	Amount
<u>TANGIBLE FIXED CAPITAL</u>		
<u>Transmission Capital</u>		
351	Land	\$ 130,000
352	Structures	169,000
353	Mains	6,356,460
354	Compressor Station Equipment	1,091,560
	Total	<u>\$ 7,747,020</u>
<u>Distribution Capital</u>		
357	Land	\$ 10,000
358	Structures	848,450
359	Mains	7,129,500
360	Station Equipment	323,540
361	Services	4,872,000
362	Meters and Regulators	1,454,000
363	Meter Assembly Installations	396,000
368	Other Equipment	36,600
	Total	<u>\$15,070,090</u>
<u>General Capital</u>		
370	Land	\$ 43,500
371	Structures	69,500
372	Office Furniture and Equipment	93,375
373	Transportation Equipment	566,750
374	Stores Equipment	41,825
375	Shop Equipment	57,665
376	Laboratory Equipment	4,200
377	Construction Equipment and Tools	191,725
379	Miscellaneous Equipment	99,350
	Total	<u>\$ 1,167,890</u>
	Total Base Cost	<u>\$23,985,000</u>
	General Construction Costs	\$ 2,780,000
	Interest During Construction	<u>110,000</u>
	Total Gross Additions	<u>\$26,875,000</u>

The testimony shows that in addition to the \$6,420,000 which applicant now desires to obtain through the issue of 256,800 shares of common stock, applicant's capital needs during 1950 aggregate \$32,875,000, segregated as follows:

Gross capital additions, 1950	\$26,875,000
Estimated amount company will owe on short-term borrowings, January 1, 1950	<u>6,000,000</u>
Total	<u>\$32,875,000</u>

To meet its obligations, applicant proposes to obtain funds from the following sources:

Sale of bonds	\$20,000,000
Sale of common stock	5,000,000
Depreciation reserve	7,400,000
Earned surplus	<u>475,000</u>
Total	<u>\$32,875,000</u>

No one questioned applicant's need for additional capital.

There is incorporated into the record in this application by reference, certain testimony offered in Application No. 30299, a rate proceeding. A witness for applicant in that application testified that if applicant's earnings on common stock ranged from \$3.50 to \$3.75 a share and if it continued to pay dividends at \$2.40 a share, the stock would have a market value of \$40 a share. On this basis a purchaser would receive 6% on his investment. Counsel for the cities takes the position that through the issue of bonds rather than stock the cost of capital will be less, and that the continued payment of annual dividends of \$2.40 a share is not warranted if the shares are issued at \$25. The hearings on Application No. 30299 have not been concluded. Applicant's actual earnings under the rates fixed in that proceeding and the form of applicant's capitalization

will determine the amount of its earnings per share on common stock.

Applicant has financed the cost of its properties in general through the issue of first mortgage bonds, preferred and common stock, and the use of moneys evidenced by depreciation accruals and earned surplus. It is its practice to meet its capital requirements temporarily in part with advances from Pacific Lighting Corporation, and thereafter to repay such advances through permanent financing. In this application it reports, as indicated above, that in addition to the presently proposed issue of \$6,420,000 of common stock it will be called upon during 1950 to issue \$20,000,000 of bonds and \$5,000,000 of stock to provide funds for plant additions and payment of indebtedness. The following tabulation shows applicant's capital ratios as of November 30, 1949, and pro forma ratios under the assumptions indicated:

	<u>Bonds</u>	<u>Preferred Stock</u>	<u>Common Stock Equity</u>
A. November 30, 1949	41.16	16.05	42.79
B. Pro Forma including proposed security issues through 1950			
1. \$31,420,000 bonds	52.02	13.09	34.89
2. \$20,000,000 bonds; \$11,420,000 common stock	45.31	13.09	41.60
3. \$25,000,000 bonds; \$6,420,000 common stock	48.24	13.09	38.67

It is advantageous for a utility to meet its capital requirements through the issue of those types and classes of securities which will provide funds most economically, having regard, however, to the maintenance of a balanced and elastic capital structure looking to the long-range effect on the utility and its consumers rather than to the immediate future. It is to the interest of the consumers that a utility maintain its capitalization so as to assure

that added capital will be available in the future on favorable terms to meet the continuing demand for service. The testimony in this proceeding shows that funds are now available to applicant through the issue of common stock, and it appears to me that applicant should avail itself of such funds. If present bond market conditions prevail, the \$25,000,000 additional financing proposed by applicant during 1950 should be evidenced by bonds.

In Exhibit 6 and Exhibit 7 in the present proceeding, applicant reports the book value of its shares of common stock, including those proposed to be issued, at \$31.35 each and the liquidation value, assuming the present surplus is distributed to the stockholders, at \$25.37 a share. The company, of course, is not in process of nor faced with liquidation and the latter calculation is without merit in this proceeding. The recorded book value of \$31.35 is based on applicant's book figures as they appear in its balance sheet. The order herein will authorize applicant to issue and sell, at par, to the holder of its common stock, said 256,800 shares of common stock. However, in making this order the Commission desires to place the company upon notice that it will not regard the dividends paid on its common stock as determining or fixing the rate of return which the company should be allowed to earn, or as representing the cost of money obtained through the issue of the common stock.

I recommend the following form of order.

O R D E R

Southern California Gas Company having applied to the Commission for an order authorizing it to issue 256,800 shares of

common stock of the aggregate par value of \$6,420,000, and the Commission having considered the evidence submitted at the hearing had on this application and being of the opinion that the money, property or labor to be procured or paid for through the issue and sale of said shares of common stock is reasonably required by Southern California Gas Company for the purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Gas Company, after the effective date hereof and on or before March 1, 1950, may issue and sell to the holder of its common stock, at not less than their par value, 256,800 shares of its common capital stock of the aggregate par value of \$6,420,000, said shares of stock to be offered to said holder of common stock pursuant to the preemptive rights contained in applicant's articles of incorporation.
2. Southern California Gas Company shall use the proceeds received from the issue and sale of said shares of common stock to pay in part its indebtedness due Pacific Lighting Corporation.
3. Southern California Gas Company shall file with the Commission, on or before April 1, 1950, a report showing the name of the purchaser of said 256,800 shares of stock, or any part thereof, the consideration received for the shares of stock issued and sold, and the purposes for which it expended the proceeds.
4. The authority herein granted is effective upon the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Public Utilities Commission of the State of California.

Dated at San Francisco, California, this 17th day of January, 1950.

R. J. [Signature]
Justus F. [Signature]
Dean H. [Signature]
Harold P. [Signature]
[Signature]
Commissioners